

Message Text

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H-02 INR-07 L-02 NSAE-00 NSC-05 PA-02 RSC-01 PRS-01

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TRSE-00 XMB-04 OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01

INT-05 AGR-10 OES-05 SWF-01 /122 W

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R 131800Z DEC 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 5153

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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PASS TREASURY AND FEDERAL RESERVE

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TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 28628, NOVEMBER 29, 1974

1. SUMMARY. BUSINESS GROUP REPORTS DOWNTURN IN FRENCH ECONOMIC ACTIVITY AGGRAVATED IN NOVEMBER BY EMERGENCE OF "COOLING-OFF PSYCHOLOGY" AMONG FIRMS AS WELL AS BY EFFECTS OF MAIL STRIKE ON RECEIPT OF NEW ORDERS AND PAYMENTS. UNEMPLOYMENT CONTINUES TO RISE, SURPASSING 3 PERCENT IN NOVEMBER. CLAIMING IN PART TO BE FORESTALLING FURTHER UNEMPLOYMENT, GOF MOVES TO REORGANIZE FRENCH AUTO INDUSTRY IN DIRECTION OF FURTHER CON-

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CENTRATION. BALANCE OF PAYMENTS FIGURES FOR FIRST HALF

OF 1974 SHOW SLIGHT OVERALL SURPLUS OF ABOUT 1.15 BILLION FRANCS. END SUMMARY.

2. PATRONAT SEES "PSYCHOLOGICAL" AGGRAVATION OF BUSINESS DOWNTURN -

IN ITS LATEST REPORT ON ECONOMIC OUTLOOK IN FRANCE, THE PATRONAT (ROUGH EQUIVALENT OF NAM) INDICATES "PSYCHOLOGICAL FACTORS" IN BUSINESS COMMUNITY BEGINNING TO AGGRAVATE DOWNTURN IN BUSINESS ACTIVITY EVIDENCED SINCE MID-SEPTEMBER. CUTOFF OF NEW ORDERS DURING MAIL STRIKE HAS, ACCORDING TO PATRONAT REPORT, DEPRESSED BUSINESS CLIMATE GENERALLY AND MAY RESULT IN SEVERE NET LOSSES TO FIRMS DESPITE EXPECTED "CATCHING-UP" IN ORDERS AS POSTAL SERVICE RESUMES.

PATRONAT VIEWS AS "STRIKING" THE SHARPNESS OF DOWNTURN IN BUSINESS OUTLOOK SINCE MID-SEPTEMBER. BRUSQUENESS OF TURNAROUND ATTRIBUTED IN LARGE PART TO PROCESS OF DRAWING DOWN INVENTORIES WHICH IN RECENT WEEKS HAS SPREAD THROUGHOUT CHAIN OF PRODUCTION.

AMONG SECTORS, PATRONAT REPORTS 30 PERCENT DROP IN NEW ORDERS OVER YEAR-EARLIER LEVELS FOR MACHINERY MANUFACTURERS (ALTHOUGH ORDERS REMAIN HIGH FOR HEAVY EQUIPMENT AND IN SOME CASES ARE INCREASING). ACTIVITY CONTINUES PROGRESSIVE DECLINE IN METALLURGICAL SECTOR, AND REMAINS DEPRESSED IN TEXTILE INDUSTRY. ONLY ELECTRICAL EQUIPMENT MANUFACTURERS REPORT IMPROVEMENT IN OVERALL SALES: DESPITE SLOWING IN DOMESTIC DEMAND, FOREIGN ORDERS FOR CAPITAL EQUIPMENT SHOWING SUSTAINED GROWTH (UP 40 PERCENT IN THIRD QUARTER OVER THIRD QUARTER 1973).

3. REORGANIZATION SET FOR FRENCH AUTO INDUSTRY -

GOF HAS MOVED TO RE-STRUCTURE FRENCH AUTO INDUSTRY IN EFFORT TO "MAINTAIN EMPLOYMENT IN SECTORS PARTICULARLY HARD-HIT BY RISING ENERGY COSTS." ON DECEMBER 3 FINANCE MINISTRY ANNOUNCED FF 1.45 BILLION OF PUBLIC UNCLASSIFIED

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FUNDS TO BE MADE AVAILABLE FOR REORGANIZATION OF CAR INDUSTRY, IN FORM OF 15-YEAR LOANS AT 9-3/4 PERCENT GRANTED BY ECONOMIC AND SOCIAL DEVELOPMENT FUND. GREATEST SHARE OF FUNDS (1 BILLION FRANCS) TO BE USED TO FACILITATE MERGER BETWEEN CITROEN AND PEUGEOT, A MOVE THAT HAS BEEN "IMMINENT" SINCE LAST JUNE (SEE PARIS 25980 AND A-360).

UNDER TERMS OF A PUBLIC-SHARE EXCHANGE OFFER
ANNOUNCED DECEMBER 6, CITROEN SHAREHOLDERS WILL BE
ABLE TO TRADE THEIR SHARES FOR CONVERTIBLE MICHELIN
AND PEUGEOTS

AT 30-TO-1 AND 15-TO-1 RATES,
RESPECTIVELY. (THE MICHELIN TIRE GIANT HAS HAD CON-
TROLLING INTEREST IN CITROEN SINCE 1934.) WHILE
PEUGEOT IS ASSUMING MANAGEMENT CONTROL OF CITROEN,
BOTH COMPANIES INVOLVED IN MERGER WILL RETAIN SEPARATE

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LINE OF VEHICLES AND SALES NETWORKS.

THE REMAINING FF 450 MILLION IN GOVERNMENT LOANS WILL GO TO STATE-OWNED RENAULT TO ENABLE ACQUISITION OF VIRTUALLY ALL SHARES OF BERLIET, THE HEAVY-VEHICLE DIVISION OF CITROEN.

REORGANIZATION OF FRENCH AUTO INDUSTRY WILL THUS RESULT IN ITS DOMINATION BY TWO VERY LARGE GROUPS IN PUBLIC AND PRIVATE SECTORS. RENAULT, ALREADY FRANCE'S LEADING MANUFACTURER OF PASSENGER CARS AND VANS, WILL CONTROL NEARLY ALL FRENCH HEAVY-VEHICLE PRODUCTION. (NEWLY-ACQUIRED BERLIET WILL CONTINUE TO PRODUCE HEAVIER VEHICLES, WHILE RENAULT'S OWN SUBSIDIARY, SAVIEM WILL

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SPECIALIZE IN MEDIUM-SIZED TRUCKS.) IN PRIVATE SECTOR, THE PEUGEOT-CITROEN MERGER WILL CREATE GROUP COMPARABLE IN SIZE TO MOST BIG EUROPEAN AUTO FIRMS. MOREOVER, COOPERATION AGREEMENTS LINKING RENAULT AND PEUGEOT, IN FORCE FOR SEVERAL YEARS, WILL BE MAINTAINED.

4. UNEMPLOYMENT TOPS 3 PERCENT IN NOVEMBER -

ON DECEMBER 11, LABOR MINISTER DURAFOR TOLD NATIONAL ASSEMBLY THAT NUMBER OF REGISTERED UNEMPLOYED (SEASONALLY ADJUSTED) ROSE TO 626,000 AT END OF NOVEMBER, FROM 560,000 IN OCTOBER AND 498,500 IN SEPTEMBER. ON BASIS OF AVAILABLE DATA, WE CALCULATE SEASONALLY-ADJUSTED UNEMPLOYMENT IN NOVEMBER AT ROUGHLY 3.2 PERCENT OF LABOR FORCE, COMPARED TO 2.9 PERCENT IN OCTOBER AND AVERAGE 2.4 PERCENT OVER FIRST THREE QUARTERS OF 1974. (SEE PARIS A-535 FOR METHODOLOGY)

ACCORDING TO LABOR MINISTRY FIGURES, JOB-SEEKERS UNDER 25 YEARS OLD REPRESENTED 40 PERCENT OF THE TOTAL, OF WHOM MAJORITY WERE WOMEN. DURAFOR ATTRIBUTED RISE IN NUMBER OF REGISTERED UNEMPLOYED TO "STRUCTURAL FACTORS" (ENTRY OF YOUTHS AND WOMEN INTO LABOR FORCE, PLUS GREATER COVERAGE OF LABOR MARKET BY NATIONAL EMPLOYMENT SERVICE), AS WELL AS SLOWDOWN IN ECONOMIC ACTIVITY AND "FREQUENTLY EXCESSIVE" CAUTION ON PART OF FIRMS WHICH HESITATE TO HIRE NEW WORKERS.

LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED, END-OF-MONTH)
JUN JUL AUG SEP OCT NOV

REGISTERED

UNEMPLOYED

(THOUSANDS) 450.1 460.1 464.4 498.5 560.0 626.0

EST.OVERALL
UNEMPLOYMENT
(AS PERCENT OF
LABOR FORCE) 2.4 2.4 2.4 2.6 2.9 3.2

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5. FF 1.15 BILLION PAYMENTS SURPLUS IN FIRST HALF -

FRENCH BALANCE OF PAYMENTS REGISTERED OVERALL SURPLUS OF ABOUT 1.15 BILLION FRANCS IN FIRST HALF OF 1974, ACCORDING TO DECEMBER 10 ANNOUNCEMENT BY FINANCE MINISTRY. BALANCE ON CURRENT ACCOUNT DETERIORATED SHARPLY OVER FIRST SIX MONTHS TO 17 BILLION FRANC DEFICIT, DUE LARGELY TO HIGHER COST OF PETROLEUM IMPORTS AND FINANCED BY SUBSTANTIAL CAPITAL INFLOWS. LONG-TERM CAPITAL ACCOUNT SHOWED SURPLUS OF NEARLY 7 BILLION FRANCS (REFLECTING BORROWING ON FOREIGN CAPITAL MARKETS BY FRENCH FIRMS, SUCH AS ELECTRICITY DE FRANCE), WHILE SHORT-TERM CAPITAL ACCOUNT PLUS UNRECORDED TRANSACTIONS WERE ALSO IN SURPLUS BY MORE THAN 11 BILLION FRANCS. COMPLETE DATA ON FIRST HALF BALANCE OF PAYMENTS BY AIRGRAM.

6. COMMODITY IMPORT BILL RISES 1 PERCENT -

FRENCH COMMODITY IMPORT PRICES ROSE 1 PERCENT IN OCTOBER AFTER HAVING FALLEN PROGRESSIVELY OVER PREVIOUS FIVE MONTHS. OVERALL INSEE (NATIONAL STATISTICS INSTITUTE) PRICE INDEX FOR PRIMARY PRODUCTS IMPORTED BY FRANCE ROSE TO 195.0 FROM 192.9 IN SEPTEMBER (BASE 1968 AS 100); IT NEVERTHELESS REMAINED BELOW THE 197.2 INDEX FOR OCTOBER 1973.

WHILE PRICES FOR INDUSTRIAL RAW-MATERIAL IMPORTS

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CONTINUED TO DECLINE (DOWN 3 PERCENT TO 163.4 FROM 168.7 IN SEPTEMBER), PRICE INDEX FOR PRIMARY FOOD IMPORTS PULLED UP OVERALL INDEX WITH 2 PERCENT INCREASE OVER SEPTEMBER (FROM 234.9 TO 239.7).

7. CREDIT SQUEEZE EASED FOR FIRMS HIT BY MAIL STRIKE -

ACTING ON INSTRUCTIONS FROM FINANCE MINISTER FOURCADE, BANK OF FRANCE HAS ANNOUNCED EASING RESTRICTIONS ON BANK CREDITS ISSUED IN NOVEMBER TO TAKE INTO ACCOUNT EFFECTS OF FRENCH POSTAL STRIKE ON PARTICULAR FIRMS (SEE REFTEL). UNDER EXISTING REGULATIONS, CREDITS TO THE ECONOMY WERE NOT TO EXCEED 13 PERCENT OF NOVEMBER 1973 LEVEL; EXEMPTIONS WILL NOW BE CONSIDERED UNCLASSIFIED

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ON A CASE-BY-CASE BASIS FOR STRIKE-RELATED FINANCING PROBLEMS.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

29479 FINANCE MINISTER FOURCADE
REVIEWS GOVERNMENT'S ECON-
OMIC PROSPECTS IN FIGARO
INTERVIEW DECEMBER 9, 1974

29480 IMF OPERATIONS AND MULTI-
LATERAL FINANCING NEEDS
IN 1975 DECEMBER 9, 1974

AIRGRAMS

A-593 FRENCH FOREIGN EXCHANGE
HOLDINGS NOVEMBER 29, 1974

A-601 FRENCH FOREIGN EXCHANGE
HOLDINGS DECEMBER 6, 1974
STONE

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